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Viewing cable 10BERN48, U/S HORMATS REVIEWS BILATERAL ECONOMIC RELATIONS \

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Understanding cables

Every cable message consists of three parts:

- The top box shows each cables unique reference number, when and by whom it originally was sent, and what its initial classification was.
- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
- The bottom box presents the body of the cable. The opening can contain a more specific subject, references to other cables ([browse by origin](#) to find them) or additional comment. This is followed by the main contents of the cable: a summary, a collection of specific topics and a comment section.

To understand the justification used for the classification of each cable, please use this [WikiSource](#) article as reference.

Discussing cables

If you find meaningful or important information in a cable, please link directly to its unique reference number. Linking to a specific paragraph in the body of a cable is also possible by copying the appropriate link (to be found at the paragraph symbol). Please mark messages for social networking services like Twitter with the hash tags [#cablegate](#) and a hash containing the reference ID e.g. [#10BERN48](#).

Reference ID	Created	Released	Classification	Origin
10BERN48	2010-02-04 17:31	2011-08-30 01:44	CONFIDENTIAL	Embassy Bern

Appears in these articles:

http://www.letemps.ch/swiss_papers

INFO	LOG-00	EEB-00	AF-00	AGRE-00	AID-00	CEA-01	CIAE-00
	COME-00	CTME-00	INL-00	DODE-00	DOT-00	PERC-00	PDI-00
	DHSE-00	EXIM-01	E-00	FAAE-00	VCI-00	FRB-00	H-00
	TEDE-00	INR-00	IO-00	ITC-01	JUSE-00	LAB-01	L-00
	VCIE-00	DCP-00	NSAE-00	ISN-00	NSCE-00	OES-00	OMB-00
	NIMA-00	GIWI-00	MA-00	ISNE-00	DOHS-00	FMPC-00	SP-00
	IRM-00	SSO-00	SS-00	STR-00	TRSE-00	NCTC-00	BBG-00
	R-00	EPAE-00	IIP-00	DRL-00	G-00	SAS-00	FA-00
	PESU-00	SEEE-00	SANA-00	/004W			

R 041731Z FEB 10
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6294

2010-02-04 17:31:00	10BERN48	Embassy Bern	CONFIDENTIAL	INFO	LOG-00	EEB-00	AF-00	AGRE-00	AID-00	CEA-01	CIAE-00	\
	COME-00	CTME-00	INL-00	DODE-00	DOT-00	PERC-00	PDI-00	\				
	DHSE-00	EXIM-01	E-00	FAAE-00	VCI-00	FRB-00	H-00	\				
	TEDE-00	INR-00	IO-00	ITC-01	JUSE-00	LAB-01	L-00	\				
	VCIE-00	DCP-00	NSAE-00	ISN-00	NSCE-00	OES-00	OMB-00	\				
	NIMA-00	GIWI-00	MA-00	ISNE-00	DOHS-00	FMPC-00	SP-00	\				
	IRM-00	SSO-00	SS-00	STR-00	TRSE-00	NCTC-00	BBG-00	\				
	R-00	EPAE-00	IIP-00	DRL-00	G-00	SAS-00	FA-00	\				
	PESU-00	SEEE-00	SANA-00	/004W								

R 041731Z FEB 10\
FM AMEMBASSY BERN\
TO SECSTATE WASHDC 6294\
C O N F I D E N T I A L BERN 000048 \

E.O. 12958: DECL: 12/31/2025 \
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [SZ](#)
SUBJECT: U/S HORMATS REVIEWS BILATERAL ECONOMIC RELATIONS \
WITH SWISS ECONOMICS MINISTRY OFFICIALS \
Classified By: Pol/Econ couns. R. Rorvig for reasons 1.4(b) and (d). \
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1. (U) January 25 at 11:00 am; Zurich \
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2. (U) Participants: \
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U.S. \
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U/S Robert Hormats, Under Secretary for Economic, Energy, and \
Agricultural Affairs \
Amb. Donald Beyer, US Ambassador to Switzerland \
Alex Whittington, Special Assistant to the Under Secretary \
Richard Rorvig, Bern Embassy notetaker \
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Switzerland \
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S/S Jean-Daniel Gerber, State Secretary, Swiss Department of \
Economics \
Amb. Monika Ruehl Burzi, Ambassador, Swiss Department of \
Economics \
Dr. Philippe Nell, Director of the America's Office, Swiss \
Department of Economics \
Remigi Winzap, Director of the WTO and Procurement Office, \
Swiss Department \
Josef Renggli, Director of the Financial Affairs Office, \
Swiss Department of Foreign Affairs \
Guido Barsuglia Deputy Director of the America's Office, \
Swiss Department of Foreign Affairs \
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Summary \

11. (C) Swiss State Secretary Jean-Daniel Gerber told U/S Hormats on January 25 that a recent Swiss Administrative court ruling had created complications for implementation of the 2009 US-Swiss Agreement on Exchange of Tax Information. Gerber said Switzerland will do its utmost to honor the agreement, though this - in his opinion - might now require submitting an adapted Agreement to the Swiss parliament for ratification. Gerber urged the US to be more active in the Doha round, saying that progress there would undermine domestic Swiss opposition to agricultural trade liberalization. This would improve the odds for an agricultural Free Trade Agreement (FTA) with the EU, a top Swiss priority. Switzerland also hopes to negotiate an FTA with China and will start a feasibility study on the issue. Swiss firms have huge intellectual property rights (IPR) problems with China, and the Swiss hope to get more protection from a new FTA. Switzerland decided not to join the EU/US WTO IPR panel against China, due to Chinese threats to break off talks if the Swiss went that route. U/S Hormats said there is a systematic assault on intellectual property rights occurring in China, and he urged the Swiss to be tough in the negotiations.

12. (C) Gerber asked the US to consider broadening G-20 membership to include Switzerland, which he said is more qualified based on economic criteria than some members. If this is not possible, then perhaps Switzerland might be allowed to take part in G-20 working groups where it has "something special to offer." Concerning the potential reduction of IMF and IBRD board seats and the current European over-representation, Switzerland wants to underline that it is not a member of the EU or the Euro zone. If a Swiss seat is cut, Gerber added, then European representation will be even more 'EU' and less 'European.' With regard to the US-Swiss discussion of economic issues in the Joint Economic Committee, both sides affirmed interest in continuing the dialogue.

Financial and Tax Issues \

13. (C) Gerber noted that a recent Swiss Administrative Court ruling (siding with several UBS account-holders seeking to prevent their UBS account data from being transferred to the IRS) had caused complications for the implementation of the 2009 US-Swiss Agreement on Exchange of Tax Information under the existing US-Swiss Double Taxation Agreement. The Swiss Government disagrees with the Court's opinion, but is compelled to live with it. The Administrative Court is the highest authority on administrative matters in Switzerland, so its decisions cannot be appealed. Nonetheless, the Swiss Government will do its utmost to honor the Agreement reached with the US on the UBS case. Gerber said that the Agreement requires Switzerland to fulfill its obligations by August 20, 2010, but contains a clause allowing the US to take offsetting actions should the balance of benefits be disturbed.

14. (C) The Swiss cabinet will meet shortly to decide on a course of action. In Gerber's view there are three potential ways to address the issue:

-- The Swiss cabinet resorts to its emergency law-making authority (Notrecht), which allows it to circumvent parliament and Switzerland's public referendum process when vital national interests are at stake. Gerber said use of this provision is unlikely, as these powers were conceived for wartime emergencies.

-- Negotiations with the US restart, in part to verify whether the number of voluntary disclosures by UBS's American account-holders has reached the level of 10,000 filings needed to satisfy the agreement.

-- The Government submits an adapted US-Swiss tax information exchange agreement to Parliament for ratification, thus superseding existing banking privacy laws. This will mean pushing an agreement through parliament and potentially through a national referendum challenge. In Gerber's opinion, this is the most likely action.

15. (C) Gerber said that some parties in parliament oppose an information-sharing agreement, while others are supportive. Furthermore, Switzerland has negotiated twelve such agreements with various countries, all intended to bring Switzerland in line with OECD banking transparency requirements. These agreements are essentially identical and the Administrative Court's decision also creates the same problem for all of them and the same need for a legislative solution.

16. (C) U/S Hormats told Gerber that the US Department of Justice is studying the Swiss Administrative Court ruling closely. The US has chosen to avoid saying anything publicly, since the US does not want comments from Washington complicating the achievement of a solution in Switzerland. The US is familiar with the concept of an independent judiciary and respects it. The US ratification process for the Agreement is going forward. The Senate's calendar is full and the US-Swiss Agreement is one of several such accords the Secretary hopes can be ratified before the end of 2010. The Ambassador noted that 14,700 persons from all countries had come forward under the IRS voluntary disclosure program. Of the 4,000 cases so far developed, about half are from UBS.

Trade and WTO Issues \

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17. (C) Gerber said that successful conclusion of the WTO's \ Doha round remains paramount for Switzerland. As a major \ trading nation and financial center, Switzerland is dependent \ on world markets and free trade. The Swiss Government would \ like to negotiate an agricultural free trade agreement with \ the EU. The proposal faces significant opposition from some \ elements within Switzerland. While a Swiss-EU agreement \ could be challenged by a domestic referendum, a successful \ Doha Round would increase the outside pressure for trade \ liberalization and be helpful to the internal Swiss political \ debate. Swiss WTO office director Winzap noted that the Doha \ round could reduce emerging market tariffs by up to 70 \ percent on average. Gerber said that Switzerland very much \ wants the US to push for restarting negotiations and would \ like to see a more active US stance. U/S Hormats reported \ that the Obama Administration, including USTR Kirk, support \ the successful conclusion of the Doha Round. However, the \ Administration will not be able to sign on to any agreement \ without more flexibility from countries such as India, China \ and Brazil. U/S Hormats dismissed Swiss concerns that Doha \ technical discussions could not move forward without a \ ministerial meeting. \

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China \

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18. (C) Gerber reported that Switzerland will conduct a \ feasibility study for a Free Trade Agreement (FTA) with \ China. (Switzerland already has FTA's with Japan, South \ Korea, Indonesia, Malaysia and Singapore.) Switzerland \ currently has a trade surplus with China, to whom it sells \ machinery, food, and diverse manufactures. Gerber indicated \ that while China originally wanted to start its broad \ European trade liberalization effort with a China-Iceland \ FTA, the financial crisis derailed these plans. China next \ examined the possibility of an FTA with Norway, but was \ uninterested as Norwegian exports are comprised mostly of \ fish, oil and shipping services. Switzerland, on the other \ hand, has a more diversified product range and is "small \ enough not to matter." Gerber reported that Swiss firms \ continue to have huge IPR problems with China, and \ Switzerland hopes to get more IPR protection from a new FTA. \

19. (C) U/S Hormats opined that there is a systematic assault \ on intellectual property rights in China. Gerber agreed and \ reported that Switzerland decided not to join the EU/US WTO \ intellectual property rights complaint against China only \ because the Chinese threatened to halt FTA plans if \ Switzerland participated. Instead, Switzerland and China \ agreed to set up a 'dialogue' between Swiss and Chinese IPR \ experts. \

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Export controls \

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10. (C) According to Gerber, Switzerland is sensitive to the \ issue of export controls and its firms comply with US \ regulations. Switzerland is the world's fourth-largest \ exporter of dual-use goods, and was recently elected chairman \ of the Wassenaar Arrangement, which controls such items. \ Gerber urged the US to contact the Swiss Government should \ any export control issues arise. Gerber understands that the \ USG is in the process of reviewing its export control regime \ and would like any updates going forward. \

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G-20, IMF, IBRD \

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11. (C) Switzerland, according to Gerber, believes it is \ more qualified to be in the G-20 than some current members. \ It is the seventh-largest financial market in the world with \ a monetary policy closer to that of the Fed than the European \ Central Bank. Gerber expressed concern that the G-20 is \ tasking international organizations of which Switzerland is a \ member, to undertake G-20 projects, but not allowing \ Switzerland a chance to comment. Gerber singled out the OECD \ in particular. Switzerland still prefers, however, that the \ G-20 involve international organizations with a broader \ membership base than see non-G-20 states excluded entirely. \ If Switzerland cannot be a G-20 member, Gerber continued, \ then perhaps it can participate in G-20 working groups on \ particular subjects, where it has "something special to \ contribute." In addition, Switzerland remains concerned \ about the possible reduction of board seats at the IMF and \ World Bank. Gerber reminded the Under Secretary that while \ the EU is over-represented in the G-20 and on the IMF and \ World Bank boards, Switzerland is not an EU member. Swiss \ President Leuthard reportedly feels very strongly about these \ matters and the Government of Switzerland hopes the US will \ take the Swiss point of view into account. \

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International Financial Regulation \

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12. (C) Gerber was surprised that the global financial crisis \ had so far led to very little trade protectionism. There \ have been around 400 mostly small-scale, trade-restricting \ measures implemented since the onset of the crisis. Russia \ is by far the biggest offender. Gerber believes that the \ status of global finance has declined markedly. For many, \ "offshore banking has become a dirty word." Gerber reported \ that the Swiss fear that the OECD goal of free capital \ movement has been forgotten. Gerber said it is difficult for \ Swiss banks to offer financial services in the US or Germany \

without having a subsidiary in those countries. Switzerland \
is concerned by some of the new legislation being considered \
by Congress. One bill, for example, would limit \
deductibility of re-insurance expenses paid to entities \
abroad. The qualified intermediary system works well, but \
many smaller Swiss banks think the cost of compliance and US \
regulatory filings is too high. However, even small Swiss \
banks cannot work only within the domestic Swiss market. \

¶13. (C) With regard to the financial responsibility fee, \
Switzerland also faces a different situation than the US. \
The Swiss National Bank's purchase of 60 billion CHF (USD \
58.5 billion) of bad assets from UBS has so far turned out to \
be profitable. The Swiss Government had made 1.2 billion CHF \
(USD 1.14 billion) on its sales, and reduced the outstanding \
balance to 29 billion CHF (USD 27.5 billion). Furthermore, \
The Swiss National Bank has increased reserve requirements \
for Swiss banks to levels higher than their foreign \
competitors. It has also lowered the allowable leverage \
ratios to third parties. Introduction of a financial \
responsibility fee on top of these measures would "overload the \
situation." \

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Joint Economic Committee and the Trade and Investment Forum \
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¶14. (C) Turning to the Joint Economic Committee (JEC) Gerber \
believes that the forum has been used to provide an overview \
of all economic matters and advance some particular issues, \
such as some particular export control cases. The US has many \
opportunities to talk to the EU about economic matters, he \
continued, but the case is different with Switzerland. U/S \
Hormats and State secretary Gerber pledged to identify a time \
that works for both sides to hold the next JEC meeting in \
Washington, possibly on the margins of the Spring IMF/IBRD \
meetings. With regard to the Trade and Investment Forum, \
which had been set up after the failure of our FTA \
negotiations, Gerber said both governments can do better. \
Switzerland is interested in global issues and President \
Leuthard has a few ideas for USTR Kirk on how to develop the \
Forum. U/S Hormats said that the US is interested in \
Switzerland's ideas of how to invigorate the agreement, \
noting the US is increasingly focused on labor and \
environmental standards. \

¶15. (U) This cable has been cleared by U/S Hormats. \

BEYER \